

Message Text

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51

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FM AMEMBASSY BUJUMBURA
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AMCONSUL JOHANNESBURG
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AMCONSUL LUBUMBASHI
AMEMBASSY DAR ES SALAAM POUCH
AMEMBASSY NAIROBI POUCH
AMCONSUL BUKAVU POUCH
AMEMBASSY PARIS POUCH
AMEMBASSY LONDON POUCH
AMEMBASSY OTTAWA POUCH
AMEMBASSY TOKYO POUCH
AMEMBASSY ROME POUCH
USMISSION USUN NEW YORK POUCH

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SUBJECT: UPDATE ON EFFORTS TO FORM NICKEL CONSORTIUM IN BURUNDI

REF BUJUMBURA 774 AND 731 (NOTAL)

SUMMARY: ALBERT AUCLAIR, TEMPELSMAN REPRESENTATIVE IN LUBUMBASHI
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WHO RETURNED THIS MONTH FROM HOME LEAVE IN US, VISITED EMBASSY

TO GIVE RUNDOWN OF LATEST DEVELOPMENTS IN TEMPELSMAN'S EFFORTS TO FORM NICKEL CONSORTIUM. IN SUM, THERE IS SLOW PROGRESS, BUT THERE ARE ALSO MANY DIFFICULTIES--SOME RELATED TO SPECIFIC TECHNICAL PROBLEMS OF BURUNDI PROJECT, AND OTHERS ARISING FROM INTERNATIONAL ECONOMIC UNCERTAINTIES. END SUMMARY.

1. AUCLAIR SAID THAT TEMPELSMAN'S EXPERTS ARE STILL STUDYING UN MINERALS SURVEY TEAM REPORT OBTAINED EARLY DECEMBER FROM BURUNDI GOVT (GRB). EVERYONE IS NOW CONVINCED THAT THERE IS HUGE AMOUNT OF NICKEL ORE HERE, AND QUANTITY TENDS TO BALANCE OUT DISADVANTAGE THAT AVERAGE METAL CONTENT OF ORE IS ONLY ROUTINE AND UNEXCITING ONE AND ONE-HALF PERCENT. ADEQUATE INFORMATION IS STILL LACKING ON AMOUNTS OF ASSOCIATED MINERALS BEING FOUND WITH NICKEL, BUT THESE COULD HAVE MAJOR BEARING ON PROJECT PROFITABILITY. (GRB OFFICIALS ARE WAXING MORE AND MORE ENTHUSIASTIC OVER PLATINUM AND COBALT DISCOVERIES, BUT AUCLAIR THINKS EVIDENCE ON QUANTITIES IS STILL TOO MEAGER.)

2. ACCORDING TO AUCLAIR, TEMPELSMAN IS GIVING SUBSTANTIAL PART OF HIS TIME TO LINING UP CONSORTIUM MEMBERS, BUT IT IS HARD TO TIE DOWN COMPANIES WHEN BUSINESS PROSPECTS ARE SO UNCERTAIN AND INTERNATIONAL CAPITAL MARKETS SO TIGHT. HE CITED TEMPELSMAN COBALT-COPPER PROJECT NEAR LUBUMBASHI WHICH WAS LARGELY FINANCED IN MID-1974 WITH \$197 MILLION BORROWINGS FROM EURODOLLAR MARKET, BUT HE NOTED THAT FINAL \$27 MILLION COULD NOT BE OBTAINED EXCEPT AS EXPORT CREDITS, AND ADDED THAT IF SAME PROJECT WERE BEING ATTEMPTED NOW, IT WOULD NOT BE ABLE TO RAISE NECESSARY FUNDS. TEMPELSMAN'S AIM IS NOT JUST TO GET APPROXIMATELY \$10 MILLION NEEDED FOR DEFINITIVE FEASIBILITY STUDY (WHICH SHOULD NOT BE TOO HARD), BUT TO GET CONSORTIUM MEMBERS COMMITTED FROM BEGINNING TO PROCEED WITH PROJECT IF STUDY PROVES FAVORABLE.

3. ALLEGHENY-LUDLIM STEEL IS STILL CONCEIVED AS MOST IMPORTANT SINGLE BACKER, BUT EVEN IT IS NOT FULLY ALIGNED, AND TEMPELSMAN WILL VISIT ITS MANAGERS WITHIN NEXT TWO WEEKS. CHARTER CONSOLIDATED (UK) HAS BACKED OUT OF GROUP, AT LEAST FOR TIME BEING, OWING TO FINANCIAL PROBLEMS WITH MINING OPERATIONS IN BOTSWANA AND SOUTH AMERICA. THE ROMANIAN GOVT WILL DEFINITELY JOIN CONSORTIUM, BUT IT WILL NOT DEAL DIRECTLY WITH LIMITED OFFICIAL USE

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TEMPELSMAN, SAYING THAT, AS SOVEREIGN STATE, IT WILL ONLY DEAL WITH GRB AFTER GRB HAD MADE ARRANGEMENTS WITH TEMPELSMAN. MEANWHILE, LATTER HAS PUT OUT FEELERS TO OTHER POSSIBLE PARTICIPANTS, INCLUDING FALCONBRIDGE (CANADA), LE NICKEL (FRANCE), SUMIMOTO (?) JAPAN), AND AN ITALIAN FIRM.

4. TEMPELSMAN RECENTLY HAD FRANK TALK IN WASHINGTON WITH ROULET, IBRD OFFICER FOR SEVERAL AFRICAN COUNTRIES, INCLUDING BURUNDI

WHICH HE VISITED IN DECEMBER. ROULET SAID THAT WORLD BANK MIGHT WELL EVENTUALLY BECOME INVOLVED IN HARD LOAN TO BURUNDI ON PROJECT INFRASTRUCTURE, BUT THIS WOULD ONLY BE AFTER DETAILED FEASIBILITY SUUDY, SATISFACTORY FINANCING ARRANGEMENTS FOR PRIVATE CAPITAL, ACCEPTABLE TERMS BETWEEN GRB AND CONSORTIUM ON COST AND PROFIT SHARING, GOOD NICKEL MARKET PROSPECTS, ETC. QUESTION OF WHICH ASPECTS OF PROJECT CONSTRUCTION WOULD ENTER INTO DEFINITION OF "INFRASTRUCTURE" FOR BANKS PURPOSES WAS STILL ENTIRELY OPEN.

5. AT MOMENT, NEITHER IBRD NOR POTENTIAL INVESTORS ARE RAISING MATTER OF BURUNDI'S INTERNAL POLITICAL TENSIONS AND OUTLOOK FOR FUTURE STABILITY. HOWEVER, AUCLAIR THINKS THIS WOULD BE EXAMINED MORE CLOSELY IF MOMENT NEARED TO PUT CASH ON LINE.

6. AUCLAIR IS HEARTENED THAT MOST SENIOR GRB ECONOMIC OFFICIALS WHOM HE IS CURRENTLY MEETING ARE SHOWING MUCH GREATER REALISM ABOUT PACE OF PROGRESS. IN PAST, SOME OF THEM (AND THIS IS STILL TRUE OF DIRGEN MINES AND MANY POLITICIANS LACKING ECONOMIC SAVVY) HAVE BEEN IN EUPHORIC STATE OF CERTAINTY THAT BURUNDI'S FORTUNES WERE NOW ASSURED. THEY HAD HOPED TO SHORT-CIRCUIT 18 TO 24 MONTH CONSORTIUM FINANCED FEASIBILPY STUDY BY COMING UP WITH VARIETY OF REPORTS FROM UN PRIVATE EXPERTS ON ORE PROSPECTS, OPTIMUM NICKEL REFINERY TECHNILOGY, POWER GENERATION PLANS, TRANSPORT CHOICES, ETD., IN HOPE THAT THESE WOULD BE SUFFICIENT

TO GET COMMITMENTS FROM INVESTORS. WITH BETTER APPRECIATION OF DIFFICULTIES, TOP GRB LEVELS REALIZE THAT WORLD IS NOT RPT NOT PANTING FOR BURUNDI NICKEL, THAT DEVELOPMENT WILL BE AT LEAST 8 TO 10 YEARS, AND THAT, IN INTERIM, THEY WILL HAVE TO COPE WITH FACT THAT BURUNDI WILL REMAIN POVERTY STRICKEN COUNTRY WITH STRUGGLING ECONOMY.

7. THESE SOVERING JUDGMENTS IN SOME GRB QUARTERS SHOULD MAKE LIMITED OFFICIAL USE

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OFFICIALS HERE LESS COCKY AND MORE REASONABLE WHEN SERIOUS TALKS BEGIN ON TERMS BETWEEN GRB AND CONSORTIUM. TEMPELSMAN NOW HOPES TO CONVENE REPRESENTATIVES OF GROUP IN BUJUMBURA IN APRIL TO TAKE FIRM DECISION ON FINANCING FEASIBILITY STUDY.
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